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ST. TAMMANY PARISH HOSPITAL  
SERVICE DISTRICT NO. 2 d/b/a

**SLIDELL MEMORIAL HOSPITAL**

Consolidated Financial Statements  
December 31, 2008 and 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7/1/09

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**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Management's Discussion and Analysis**

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This section of St. Tammany Parish Hospital Service District No. 2's (Slidell Memorial Hospital, or "SMH" or the "Hospital") annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on December 31, 2008. This should be read in conjunction with the financial statements in this report.

**2008 A Year of Transition**

As was the case across the country, hospital utilization declined in 2008 and thus revenues decreased as well. Through the first two quarters of 2008 compared to the same time frame in 2007, acute admissions were down 6%, surgeries were down 11%, catheterization lab patients were down 10%, and even ER patients were down 2%. Management and the Board collaborated to determine the organizational reaction to the market events not wanting to act too quickly and lose skilled workers in case volumes rebounded later in the year. In May 2008, the Board approved management's plan to reposition the hospital cost structure to more closely reflect a new volume baseline. As part of this restructuring management sought to flatten the organization. Management began at the top by reducing the senior management team, from nine executives to five (44% reduction). Middle management was reduced from 38 Directors to 27 (29% reduction) through consolidation of departments. In addition to a reduction in force, a schedule of revised departmental productivity standards was implemented. Overall the plan reduced FTE's by 77. There were significant non-labor cost reductions identified through contract terminations and supply utilization reduction initiatives. Overall the plan forecast a \$3.1 million reduction in 2008 operating expenses based on the first five months' run rate. Although the plan worked to reduce costs at the described rate, the volume decline in some areas accelerated in the third and fourth quarter when acute admissions were down 12%, ER was down 11%, open heart surgeries were down 36%, neurosurgeries were down 30%, and rehabilitation was down 14%. Management continues to monitor the revenue stream and adjust costs accordingly in order to ensure SMH remains financially sound.

MD Imaging, a 2006 acquisition, continued to provide growth in revenues. Outpatient imaging volumes grew 5% overall from 2007 to 2008. To position the facility for continued growth, SMH leased a PET/CT machine during 2008. PET/CT procedures grew 137% to a monthly average of 45. Press Ganey recognized the Hospital for *performing in the Top 8% nationally in patient satisfaction. The hospital expects to break ground on a state of the art comprehensive cancer center during 2009 with completion targeted in late 2010.* During 2008, management and the Board selected a national architectural firm to work together with the medical staff to develop the programming and design of the cancer facility. The funding of the project is due to substantial public support for the hospital cancer program. During 2007, the Hospital went before the voting public and received a 79.4% "yes" vote in favor of a \$17.5 million bond issue funded by a property tax designated to build and equip the facility.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Management's Discussion and Analysis**

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**Financial Highlights**

Net patient service revenue decreased \$3.0 million or 2.4% from prior year. Although most volumes were down versus 2007, the Hospital had a strong revenue recognition year through increased case mix index and increased revenue per case from payer sources. If not for a \$3.8 million decrease in federal and state grants related to uninsured and pediatric services, SMH would have achieved a slight increase in net patient service revenue. Operating expenses before depreciation and amortization increased \$3.0 million or 2.5%. The inflationary impact of oil prices early in 2008, drove significant price increases through all the group purchasing organizations (GPOs) from which SMH buys supplies and equipment. Most medical supplies have petroleum based components. Although oil prices have fallen from the 2008 highs, the price per barrel is still significantly higher than in 2007. SMH is in the process of shopping GPOs to ensure the best price per unit is being achieved. Non-operating revenues in 2007 included \$1.7 million of Hurricane Katrina claim related insurance and FEMA proceeds.

The Hospital's total net assets increased by \$2.1 million or 3.4%, from the prior year. The assets of the Hospital exceeded liabilities at the close of the 2008 fiscal year by \$64.8 million. Of this amount, \$39.3 million (unrestricted net assets) may be used to meet ongoing obligations to the Hospital District's patients and creditors, and \$19.5 million is invested in capital assets, net of related debt.

**Overview of the Financial Statements**

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Consolidated Financial Statements, and Supplementary Information.

*The Consolidated Financial Statements* of Slidell Memorial Hospital report the consolidated financial position of the Hospital and the consolidated results of its operations and its cash flows. The consolidated financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

*The Consolidated Balance Sheet* includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year. It also provides the basis for evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the *Consolidated Statements of Revenues, Expenses, and Changes in Net Assets*. This statement measures the performance of the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

**St. Tammany Parish Hospital Service District No. 2  
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**Management's Discussion and Analysis**

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The primary purpose of the Consolidated Statement of Cash Flows is to provide information about the Hospital's cash from operations, investing, and financing activities. The cash flow statement outlines where the cash comes from, what the cash is used for, and the change in the cash balance during the reporting period.

The annual report also includes Notes to Consolidated Financial Statements that are essential to gain a full understanding of the data provided in the consolidated financial statements. The notes to the consolidated financial statements can be found immediately following the basic financial statements in this report.

Following the notes to the consolidated financial statements is a section containing supplementary information that further explains and supports the information reported in the consolidated financial statements. This section includes optional schedules showing Gross revenue and Expenses by Cost center as well as statistical information.

**Financial Analysis of the Hospital**

The consolidated balance sheet and the consolidated statement of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or improvements, as well as decreases or declines in the net assets, are one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions (including uninsured and working poor) and population growth.

**Net Assets**

A summary of the Hospital's balance sheet is presented in the following table:

**Condensed Consolidated Statement of Net Assets**  
(In Thousands)

	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
Current and other assets	\$ 84,629	\$ 85,949	\$ 81,802
Capital assets, net	51,604	52,179	51,452
<b>Total assets</b>	<b>\$ 136,233</b>	<b>\$ 138,128</b>	<b>\$ 133,254</b>
Long-term debt outstanding	\$ 53,695	\$ 56,816	\$ 60,189
Other liabilities	17,745	18,657	21,314
<b>Total liabilities</b>	<b>\$ 71,440</b>	<b>\$ 75,473</b>	<b>\$ 81,503</b>
Invested in capital assets, net of related debt	\$ 19,544	\$ 16,229	\$ 14,623
Restricted	5,920	4,325	3,652
Unrestricted	39,329	42,101	33,476
<b>Total net assets</b>	<b>\$ 64,793</b>	<b>\$ 62,655</b>	<b>\$ 51,751</b>

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Management's Discussion and Analysis**

December 31, 2008

From December 31, 2007 to 2008, current and other assets decreased 2% primarily associated with capital investment in long term assets. Capital assets decreased 1% reflecting the net effect of investing \$7.6 million in new capital assets less depreciation of \$8.2 million on existing capital assets. Long-term debt decreased 6% reflecting payments on schedule. Other liabilities decreased 5%.

December 31, 2007

From December 31, 2006 to 2007, current and other assets increased 5% primarily associated with operating cash flow and non-traditional revenue source procurement. Capital assets increased 1% reflecting the net effect of investing \$8.6 million in new capital assets less depreciation of \$7.9 million on existing capital assets. Long term debt decreased 6% reflecting payments on schedule. Other liabilities decreased 12%. Unrestricted net assets increased \$8.6 million or 26%.

**Summary of Revenues, Expenses, and Changes in Net Assets**

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended December 31, 2008, 2007 and 2006:

**Condensed Consolidated Statements of Revenues, Expenses, and  
Changes in Net Assets  
(In Thousands)**

	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
Net patient service revenue	\$ 125,163	\$ 128,187	\$ 116,656
Other operating revenue excluding interest income	3,696	3,998	2,641
<b>Total operating revenues</b>	<b>128,859</b>	<b>132,185</b>	<b>119,297</b>
Operating expenses before depreciation/amortization	120,298	117,314	106,129
Earnings before interest depreciation and amortization and non-operating revenues (expenses) (EBIDA)	8,561	14,871	13,168
Depreciation and amortization expense	8,803	8,107	6,729
Operating net income (loss)	(242)	6,764	6,439
<b>Non-operating revenues (expenses):</b>			
Interest income	1,183	2,678	1,955
Interest expense	(2,173)	(2,370)	(2,212)
Property tax revenue	3,300	2,398	2,411
Insurance proceeds and other	70	1,434	1,444
Revenues in excess of expenses	2,138	10,904	10,037
<b>Total net assets - beginning of year</b>	<b>62,655</b>	<b>51,751</b>	<b>41,714</b>
<b>Total net assets - end of year</b>	<b>\$ 64,793</b>	<b>\$ 62,655</b>	<b>\$ 51,751</b>

**St. Tammany Parish Hospital Service District No. 2  
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**Management's Discussion and Analysis**

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The following table represents the relative percentage of gross charges billed for patient services by payer for the fiscal years ended December 31, 2008, 2007 and 2006:

	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
Medicare	36.6 %	35.5 %	36.4 %
Medicaid	11.6 %	10.3 %	8.4 %
Managed care and commercial insurance	47.2 %	48.7 %	48.1 %
Uninsured	4.6 %	5.5 %	7.1 %
<b>Total gross charges</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

**Operating and Financial Performance**

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Assets between 2008, 2007 and 2006:

- During 2008, the Hospital had 7,660 acute inpatient admissions. This is a decrease of 8.9% from fiscal year 2007. During 2007, the Hospital had 8,408 acute inpatient admissions. This is an increase of 1.5% from fiscal year 2006.
- Outpatient registrations were 99,509 and 64,478 in 2008 and 2007, respectively. This is an increase of 4.2% in 2008 from fiscal year 2007 and an increase of 2.8% in 2007 from fiscal year 2006.
- Emergency registrations were 26,509 and 28,413 in 2008 and 2007, respectively. This is a decrease of 6.7% in 2008 compared to fiscal year 2007, and an increase of 5.5% in 2007 compared to fiscal year 2006.
- During 2008, net patient service revenue decreased \$3.0 million or 2.4% from 2007. If not for a \$3.8 million decrease in federal and state grants related to uninsured and pediatric services, SMH would have achieved a slight increase in net patient service revenue. During 2007, net patient service revenue increased \$11.5 million or 9.9% from 2006.
- During 2008, salaries, wages and benefits increased 1.1% from prior year. During 2007, salaries, wages and benefits increased 13.6% from 2006 reflecting staff growth to service volume increases, as well as the average hourly wage rate pressure throughout the greater New Orleans market since the storm due to lack of adequate health care workers.
- During 2008, supplies and materials increased approximately 11.4% compared to 2007 and 2.0% from 2006.

**St. Tammany Parish Hospital Service District No. 2  
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**Management's Discussion and Analysis**

- Other Direct expenses increased \$1.8 million from 2006 to 2007 including \$0.4 million for temporary rental of a mobile MRI during construction for a new unit at MD Imaging, \$0.3 million in amortization of physician recruitment loans, \$0.3 million in maintenance agreements for MD imaging, \$0.3 million for maintenance agreements for information technology in the hospital, \$0.3 million increase in utility costs, and \$0.2 million increased investment in operating room instruments.
- Professional Fees decreased \$0.6 million from 2007 to 2008 and increased \$1.2 million from 2006 to 2007, associated primarily with full-year ownership of MD Imaging which operates as a wholly owned freestanding imaging center using a global billing method. Under global billing, the Hospital bills and collects for both the technical and professional component of the service. The Hospital pays the Radiologists for the professional component of the service based on the volume of each CPT code performed. This portion of the increase was \$0.9 million. In an effort to improve emergency room performance, the Board of Commissioners increased payments to the ER physician group by \$0.2 million in 2007.
- Purchased Services increased \$0.1 million from 2007 to 2008 and \$0.2 million from 2006 to 2007.

**Performance Against Budget**

	<b>FY 2008 Budget</b>	<b>FY 2008 Actual</b>	<b>Favorable (Unfavorable) Variance</b>
<b>Revenues:</b>			
Net patient service revenue	\$ 126,982	\$ 125,163	\$ (1,819)
Other operating revenue	3,665	3,696	31
<b>Total operating revenues</b>	<b>130,647</b>	<b>128,859</b>	<b>(1,788)</b>
<b>Operating expenses:</b>			
Salaries, wages and benefits	64,459	62,721	1,738
Supplies and other	42,372	43,033	(661)
Professional and contractual services	13,919	14,544	(625)
<b>Total operating expenses before depreciation/ amortization and non-operating revenues (expenses)</b>	<b>120,750</b>	<b>120,298</b>	<b>452</b>
<b>EBIDA</b>	<b>9,897</b>	<b>8,561</b>	<b>(1,336)</b>
Interest income	1,150	1,183	33
Interest expense	(2,162)	(2,173)	(11)
Depreciation and amortization	(8,571)	(8,803)	(232)
Non-operating revenue, net	2,389	3,370	981
<b>Excess of revenues over expenses</b>	<b>2,703</b>	<b>2,138</b>	<b>(565)</b>
<b>Increase in net assets</b>	<b>\$ 2,703</b>	<b>\$ 2,138</b>	<b>\$ (565)</b>

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Management's Discussion and Analysis**

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**Capital Assets**

	Fiscal Year 2008	Fiscal Year 2007	Dollar Change	Percent Change
Land and land improvements	\$ 6,198	\$ 5,864	\$ 334	6 %
Building and leasehold improvements	70,185	68,699	1,486	2 %
Equipment	57,622	52,789	4,833	9 %
Construction in progress	990	-	990	100 %
Subtotal	134,995	127,352	7,643	6 %
Less: Accumulated depreciation	(83,391)	(75,173)	(8,218)	11 %
Net capital assets	\$ 51,604	\$ 52,179	\$ (575)	(1) %

**Economic Factors and Next Year's Budget**

The Hospital's Board and Management considered many factors when setting the fiscal year 2009 budget. Late in 2008, the independent hospitalist group working at SMH announced it would be disbanding and ceasing to provide service to referring physicians. In anticipation of this disruption and potential for alternative placement of admissions in competing hospitals, the 2009 budget acute admissions and related services were decreased for the hospitalists' historical volume. Management and the Board worked to launch a hospitalist strategy through a contractual arrangement with Apogee Medical Management, Inc.. Apogee will be providing SMH with up to eight hospitalists to not only fill the initial void caused by the group disbanding, but to grow the program to all physicians who wish to use a third generation hospitalist program. Due to the challenges of hospitalist recruitment, the full complement of staff is not expected until the third quarter of 2009. In addition, the broad economy is of significant importance in setting the 2009 budget, which takes into account market forces and environmental factors such as:

- Lack of physician coverage of emergency room unreferred call, for example orthopedics, neurosurgery, ophthalmology, and otolaryngology. Physicians can choose to work at specialty facilities with no ER and hence no ER call responsibility.
- General weakness in the broad economy signaling changes in employment, employment related benefits, and ultimately managed care tightness on utilization and rates.
- Medicaid payment rate reduction of 3.4%.
- Growing utilization of costly technology without adequate reimbursement.
- Cost of drugs such as chemotherapy agents without adequate reimbursement.
- Access to free cash flow for needed replacement investment.
- Increased compliance costs due to pay for performance, HIPAA and other regulations.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Management's Discussion and Analysis**

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**Contacting the Hospital Financial Manager**

This Financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Slidell Memorial Hospital, 1001 Gause Blvd. Slidell, LA 70458.



## **Independent Auditor's Report**

To the Board of Commissioners  
St. Tammany Parish Hospital Service District No. 2  
Slidell, Louisiana

We have audited the accompanying consolidated balance sheets of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Organization) as of December 31, 2008, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended, which collectively comprise the Organization's consolidated basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Slidell Memorial Hospital as of December 31, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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**RSM McGladrey Network**  
An Independently Owned Member

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2009, on our consideration of the Slidell Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages i through viii is not a required part of the consolidated basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*LaBite, LeBlanc, Long & Neal*

A Professional Accounting Corporation

April 15, 2009

**St. Tammany Parish Hospital Service District No. 2**  
**(d/b/a Slidell Memorial Hospital)**

**Consolidated Balance Sheets**  
**December 31, 2008 and 2007**

	2008	2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 51,550,245	\$ 53,856,103
Patient Accounts Receivables, Net of Allowances for Uncollectible Accounts of \$8,202,873 and \$5,706,742 in 2008 and 2007, Respectively	16,214,528	15,760,271
Assets Whose Use is Limited, Required for Current Liabilities	1,771,188	1,741,794
Inventories	3,120,503	3,569,516
Prepaid Expenses and Other Receivables	3,095,067	3,490,522
<b>Total Current Assets</b>	<b>75,751,531</b>	<b>78,418,206</b>
<b>Assets Whose Use is Limited or Restricted</b>		
By Board or Under Agreements for Capital Improvements and Debt Service	7,900,804	6,223,768
By Donors	47,379	45,213
By Board Designated for Workers' Compensation Claims	350,000	350,000
<b>Total Assets Whose Use is Limited or Restricted</b>	<b>8,298,183</b>	<b>6,618,981</b>
<b>Capital Assets</b>		
Land and Improvements	6,197,382	5,864,205
Buildings	70,185,011	68,698,770
Equipment	57,622,288	52,789,149
Construction in Progress	989,983	-
	134,994,664	127,352,124
Less Accumulated Depreciation	(83,391,052)	(75,172,632)
<b>Capital Assets, Net</b>	<b>51,603,612</b>	<b>52,179,492</b>
<b>Other Assets</b>	<b>579,408</b>	<b>910,880</b>
<b>Total Assets</b>	<b>\$ 136,232,734</b>	<b>\$ 138,127,559</b>

The accompanying notes are an integral part of these financial statements.

	2008	2007
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade Accounts Payable	\$ 6,242,326	\$ 5,953,263
Salaries, Wages and Benefits Payable	1,312,591	2,573,879
Accrued Paid Time Off Payable	2,730,414	2,706,475
Accrued Interest and Other Expenses	3,663,630	3,221,333
Amounts Due to Third-Party Payors	-	140,713
Amounts Due Within One Year on Capital Lease Obligations	1,831,057	2,176,398
Amounts Due Within One Year on Bonds Payable	860,000	820,000
Amounts Due Within One Year on Notes Payable and Hospital Indebtedness	1,105,000	1,065,000
<b>Total Current Liabilities</b>	<b>17,745,018</b>	<b>18,657,061</b>
<b>Capital Lease Obligations, Less Amounts Due Within One Year</b>	<b>3,118,260</b>	<b>4,949,317</b>
<b>Bonds, Less Amounts Due Within One Year</b>	<b>18,745,000</b>	<b>19,605,000</b>
<b>Notes Payable, Less Amounts Due Within One Year</b>	<b>6,570,000</b>	<b>7,675,000</b>
<b>Community Disaster Loan, Including Accrued Interest</b>	<b>25,261,244</b>	<b>24,586,380</b>
<b>Commitments and Contingencies (Notes 6, 7 and 9)</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>71,439,522</b>	<b>75,472,758</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	19,544,295	16,228,777
Restricted for Debt Service and Workers' Compensation	5,920,091	4,324,626
Unrestricted	39,328,826	42,101,398
<b>Total Net Assets</b>	<b>64,793,212</b>	<b>62,654,801</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 136,232,734</b>	<b>\$ 138,127,559</b>

**St. Tammany Parish Hospital Service District No. 2**  
**(d/b/a Slidell Memorial Hospital)**

**Consolidated Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended December 31, 2008 and 2007**

	2008	2007
<b>Revenues</b>		
Net Patient Service Revenue	\$ 125,163,564	\$ 128,187,063
Other Revenue	3,695,661	3,998,088
<b>Total Revenues</b>	<b>128,859,225</b>	<b>132,185,151</b>
<b>Operating Expenses</b>		
Salaries and Wages	51,195,560	51,874,065
Employee Benefits	11,524,887	10,175,293
Supplies and Materials	27,382,078	24,590,044
Other Direct Expenses	15,651,352	15,628,093
Professional Fees	9,304,801	9,950,587
Purchased Services	5,239,341	5,096,732
Depreciation and Amortization	8,803,323	8,106,778
<b>Total Operating Expenses</b>	<b>129,101,342</b>	<b>125,421,592</b>
<b>Operating (Loss) Income</b>	<b>(242,117)</b>	<b>6,763,559</b>
<b>Non-Operating Revenues (Expenses)</b>		
Interest Income	1,182,930	2,677,583
Interest Expense	(2,173,036)	(2,369,539)
Property Tax Revenue	3,300,583	2,397,942
Insurance Proceeds	-	1,434,604
Other	70,051	(483)
<b>Total Non-Operating Revenues, Net</b>	<b>2,380,528</b>	<b>4,140,107</b>
<b>Increase in Net Assets</b>	<b>2,138,411</b>	<b>10,903,666</b>
<b>Net Assets, Beginning of Year</b>	<b>62,654,801</b>	<b>51,751,135</b>
<b>Net Assets, End of Year</b>	<b>\$ 64,793,212</b>	<b>\$ 62,654,801</b>

The accompanying notes are an integral part of these financial statements.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2008 and 2007**

	2008	2007
<b>Cash Flows from Operating Activities</b>		
Cash Received from Patient Services	\$ 124,768,068	\$ 128,105,537
Cash Paid to or on Behalf of Employees	(63,932,796)	(61,475,326)
Cash Paid for Supplies and Services	(55,729,591)	(59,197,523)
Cash Received from FEMA and Other Federal and State Programs	2,739,004	6,728,367
<b>Net Cash Provided by Operating Activities</b>	<b>7,844,685</b>	<b>14,161,055</b>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Cash Received from Insurance	500,000	934,604
Other Non-Operating Revenues (Expenses)	70,051	(483)
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>570,051</b>	<b>934,121</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of Capital Assets	(7,926,105)	(8,581,333)
Principal Payments on Long-Term Debt and Capital Lease Obligations	(4,061,398)	(4,220,610)
Dedicated Property Tax Revenue Received	2,261,229	2,084,226
Interest Payments	(1,527,692)	(1,690,610)
Proceeds from Sale of Capital Assets	19,684	9,323
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(11,234,282)</b>	<b>(12,399,004)</b>
<b>Cash Flows from Investing Activities</b>		
Decrease (Increase) in Assets Whose Use is Limited or Restricted	(3,369,242)	2,622,701
Proceeds from Matured Investments	2,700,000	-
Interest Earned on Investments	1,182,930	2,679,667
<b>Net Cash Provided by Investing Activities</b>	<b>513,688</b>	<b>5,302,368</b>
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	<b>(2,305,858)</b>	<b>7,998,540</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>53,856,103</b>	<b>45,857,563</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 51,550,245</b>	<b>\$ 53,856,103</b>

The accompanying notes are an integral part of these financial statements.

**St. Tammany Parish Hospital Service District No. 2**  
**(d/b/a Slidell Memorial Hospital)**

**Consolidated Statements of Cash Flows (Continued)**  
**For the Years Ended December 31, 2008 and 2007**

	2008	2007
<b>Reconciliation of Operating (Loss) Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating (Loss) Income	\$ (242,117)	\$ 6,763,559
Adjustments to Reconciliation Operating Income to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	8,803,323	8,106,778
(Gain) Loss on Disposal of Capital Assets	(1,538)	57,698
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	(454,257)	2,230,788
Inventories and Other Operating Assets	344,468	(521,413)
Accounts Payable and Accrued Expenses	(605,194)	(2,476,355)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 7,844,685</b>	<b>\$ 14,161,055</b>

The accompanying notes are an integral part of these financial statements.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 1. Organization and Significant Accounting Policies**

**Organization**

The consolidated basic financial statements include the accounts of the following entities:

**Slidell Memorial Hospital (the Hospital)** is a nonprofit corporation organized as St. Tammany Parish Hospital Service District No. 2 (the District), a political subdivision of the state of Louisiana as established in Act 180 of the 1984 Regular Session of the Legislature, as amended, and is exempt from federal and state income taxes. The governing authority of the District is the St. Tammany Parish Hospital Service District No. 2 Board of Commissioners (the Board), which are appointed by a cross-section of representatives of city, parish, and state government bodies. The Board is authorized to oversee the assets and govern the operations of the District. The Hospital operates a full service acute care community hospital.

**Slidell Memorial Health Foundation, Inc.** and its successor, **Slidell Memorial Hospital Foundation, Inc.** are collectively herein referred to as **the Foundation**. The Foundation is comprised of Louisiana non-profit corporations exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Foundation is owned and operated by the District and was formed to provide the Hospital with supplemental funds for certain programs and other support.

**SMH Physician Practice Services, Inc. (PPS)** is a Louisiana non-profit corporation organized to assist the Hospital in providing medical services to the community in a cost effective and efficient manner by assuring the availability of competent health care personnel. PPS is owned and operated by the District and is a taxable non-profit corporation.

**Slidell Radiation Center, Inc. (SRC)** is a Louisiana non-profit corporation organized to purchase and operate a radiation facility. SRC is owned and operated by the District and is a taxable non-profit corporation.

The Hospital, the Foundation, PPS, and SRC are collectively referred to as the Organization. There are no other organizations or agencies whose financial statements should be consolidated and presented with these consolidated financial statements.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts and transactions of the Hospital, the Foundation, PPS, and SRC. All significant intercompany accounts and transactions have been eliminated in consolidation.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

**Basis of Accounting**

The Organization utilizes the accrual basis of accounting for proprietary funds. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Funds Accounting*, as amended, the Organization has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

**Net Patient Service Revenue and Related Receivables**

Net Patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Organization provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Organization is exposed to certain credit risks. The Organization manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental entities.

**Medicare and Medicaid Reimbursement Programs**

The Hospital is reimbursed under the Medicare Prospective Payment System for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, the Hospital is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The Hospital qualifies as a disproportionate share provider under the Medicare regulations. As such, the Hospital receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

The Hospital is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology, which assigns a per diem rate to each hospital in the peer group.

Medicare outpatient services (excluding clinical lab) are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the Hospital is paid a predetermined amount per procedure. Medicaid outpatient services (excluding ambulatory surgery, therapy and clinical lab) are reimbursed at 86.2% of the lower of cost or charges. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery and outpatient therapy services are reimbursed based upon the respective fee schedules.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

**Medicare and Medicaid Reimbursement Programs (Continued)**

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

**Cash and Cash Equivalents**

Cash and cash equivalents are recorded at fair value. The Organization reports short-term, highly liquid investments whose use is not limited (that are both readily convertible to known amounts of cash and mature within three months or less from date of purchase) as cash equivalents. As of December 31, 2008 and 2007, the Organization's cash, cash equivalents, and certificates of deposit were entirely insured or collateralized with securities held by its agent in the Organization's name.

**Assets Whose Use is Limited or Restricted**

Assets whose use is limited or restricted consists of cash and investments reported at fair value with gains and losses included in the consolidated statements of revenues, expenses and changes in net assets.

**Inventories**

Inventories, which consist primarily of drugs and supplies, are valued at the lower of cost (first-in, first-out method) or market.

**Capital Assets**

Land, buildings, and equipment acquisitions are recorded at historical cost except for assets donated to the Organization. Donated assets are recorded at fair value of the assets at the date of donation. Depreciation of buildings and equipment is computed using the straight-line method in amounts sufficient to amortize the cost of these assets over their estimated useful lives.

Equipment held under capital lease obligations has been recorded at the present value of the minimum lease payment. Amortization of leased assets is included in depreciation and amortization expense.

**Other Assets**

Other assets consist of the unamortized portion of debt issuance costs and also includes costs in excess of net assets acquired relating to the acquisition of MD Imaging, Inc.

Debt issuance costs are amortized over the term of the related debt issue using a method that approximates the interest method. Accumulated amortization on bond issuance costs was \$52,932 and \$40,944, at December 31, 2008 and 2007, respectively.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

**Other Assets (Continued)**

Cost in excess of net assets acquired, or goodwill, of approximately \$1,278,000 relates to the purchase of the assets of Delta Imaging Partners, Inc. d/b/a MD Imaging for \$3,702,527 in May 2006. The Hospital also assumed certain lease obligations in connection with this transaction. This facility provides magnetic resonance imaging, CT imaging, ultrasound, routine x-ray, and bone density services.

Cost in excess of net assets acquired is being amortized by the straight-line method over four years. Accumulated amortization was approximately \$838,646 and \$519,161, at December 31, 2008 and 2007, respectively.

**Impairment of Long-Lived Assets**

The Organization reviews long-lived assets, consisting of property and equipment and cost in excess of net assets acquired, for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable. The Organization determines recoverability of the assets by comparing the carrying value of the asset to net future undiscounted cash flows that the asset is expected to generate. The impairment recognized is the amount by which the carrying amount exceeds the fair market value of the asset. There were no asset impairments recorded during 2008 and 2007.

**Employee Health and Workers' Compensation Insurance**

The Organization is self-insured for hospitalization and workers' compensation claims. Estimated amounts for claims incurred but not reported are calculated based on claims experience and, together with unpaid claims, are included in accrued interest and other expenses on the consolidated balance sheets.

**Statements of Revenues, Expenses, and Changes in Net Assets**

All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the consolidated statements of revenues, expenses, and changes in net assets. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or investment income.

**Property Tax Revenues**

As a result of a voter referendum in 2003, the Hospital began receiving dedicated property tax revenues in 2004 in amounts sufficient to fund annual debt maturities of the general obligation bonds and related interest costs (see Note 7). Such revenues are considered non-operating in the accompanying consolidated statements of revenues, expenses and changes in net assets. Unexpended property tax revenues are accumulated in a restricted fund and are exclusive for governmental debt service.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the allowance for uncollectible accounts receivable and amounts estimated to be recovered from third party payors are particularly sensitive estimates subject to change.

**Restricted Resources**

When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

**Net Assets**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, net assets are classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

***Invested in Capital Assets, Net of Related Debt***

This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

***Restricted***

This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

***Unrestricted***

This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

**Note 2. Assets Whose Use is Limited or Restricted**

The terms of the Organization's bond issues require certain funds to be maintained on deposit with the trustee. The funds on deposit with the trustee and funds designated by the Board for capital improvements as of December 31, 2008 and 2007, were as follows:

	2008	2007
<b>Current Assets, Under Bond Indenture</b>		
Dedicated Property Tax Revenue	\$ 1,771,188	\$ 1,741,794
<b>Total</b>	<b>\$ 1,771,188</b>	<b>\$ 1,741,794</b>
<b>Non-Current Assets, Under Bond Indenture</b>		
Dedicated Property Tax Revenue	\$ 3,798,903	\$ 2,232,832
By Board, Designated for Capital Improvements	4,101,901	3,990,936
By Board, Designated for Workers' Compensation Claims	350,000	350,000
By Donors	47,379	45,213
<b>Total</b>	<b>\$ 8,298,183</b>	<b>\$ 6,618,981</b>

Statutes authorize the Organization to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). During 2008, the Organization's investments in obligations of U.S. Agencies matured. Included in assets whose use is limited is \$10,069,371 of cash deposits and money market investments, which amounts were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the Organization's name.

During fiscal 2001, the Board granted management discretion to utilize for other operating purposes those funds designated for capital improvements. Management has continued to maintain these funds in a separate trust account and treat them as internally designated funds.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 3. Third-Party Payor Arrangements**

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 2008 and 2007, approximately 48% and 46%, respectively, of the Hospital's gross patient service charges were derived from services provided to Medicare and Medicaid program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amount becomes final. The fiscal intermediary has completed its review of estimated Medicare settlements for fiscal years ended through December 31, 2006, and Medicaid settlements for fiscal years ended through December 31, 2005. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits of the estimated settlements for the years ended December 31, 2007 and 2008 for Medicare and December 31, 2006 through December 31, 2008, for Medicaid, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

Also, the Hospital received additional funding totaling \$2,739,004 and \$4,478,415, for 2008 and 2007, respectively, from certain federal and state programs for reimbursement of uncompensated care which amount is recorded in net patient service revenue.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined daily rates and discounts from established charges.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 4. Net Patient Service Revenue**

Net patient service revenue for the years ended December 31, 2008 and 2007, was as follows:

	2008	2007
Gross Patient Service Revenue		
Medicare	\$ 180,461,272	\$ 165,962,787
Medicaid	57,296,748	48,160,859
Managed Care/Commercial	232,702,898	228,674,131
Self Pay/Uninsured	22,959,218	25,615,609
<b>Total</b>	<b>493,420,136</b>	<b>468,413,386</b>
Contractual Adjustments	(343,686,158)	(314,728,584)
Charity Care	(7,566,254)	(8,024,288)
Provisions for Bad Debts	(17,004,160)	(17,473,451)
<b>Total</b>	<b>\$ 125,163,564</b>	<b>\$ 128,187,063</b>

**Note 5. Community Benefits**

As a community health care provider, the Hospital's stated mission is "To Improve the Quality of Life in our Community". As such, total revenue includes that revenue generated from direct patient care, rentals from various medical office buildings, and sundry revenue related to the operation of the Hospital and its member organizations.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ended December 31, 2008 and 2007, measured at established rates, totaled \$7,566,254 and \$8,024,289, respectively. Government subsidies received in 2008 and 2007 totaled \$2,739,004 and \$4,478,415, respectively (see Note 3).

In addition, the Hospital sponsors or participates in numerous activities to benefit the community. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. The Hospital has conducted a Community Health Assessment to identify health risks in the community. Through this research, the Hospital has developed wellness and prevention programs that target these high-risk area for a healthier community.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 5. Community Benefits (Continued)**

Annually, the Hospital sponsors several health fairs and programs regarding such issues as diabetes, breast cancer, smoking cessation, nutrition, exercise, cardiology, women's health, parenting skills, development topics, etc., to provide the community access to health-related information. Also, the Hospital provides health screening at no cost or a reduced cost to the community. Some health screenings include prostate cancer, cholesterol, colorectal, skin cancer, glucose, and thyroid screenings.

The Hospital encourages its employees to volunteer for charitable organizations and to participate in fund-raising activities and, in some cases, pays employees to perform public services such as health screenings. In addition, the Hospital aided various community service organizations through donations and sponsorships.

**Note 6. Leases**

The Hospital leases medical and administrative equipment under operating leases with terms that vary from month-to-month to five years. Total rental expense included in other direct expenses on the consolidated statements of revenues, expenses, and changes in net assets was \$2,061,365 and \$2,203,640, for the years ended December 31, 2008 and 2007, respectively.

The Hospital also leases medical equipment under lease agreements accounted for as capital lease obligations in accordance with Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*. These capital lease obligations expire at various dates through 2012. The capital asset balances on the consolidated balance sheets include equipment under capital lease obligations of \$12,399,363, less accumulated amortization of \$7,451,051 and \$5,166,204, at December 31, 2008 and 2007, respectively.

**St. Tammany Parish Hospital Service District No. 2**  
**(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

**Note 6. Leases (Continued)**

The future minimum lease payments at December 31, 2008, for noncancelable leases are as follows:

	Operating Leases	Capital Leases
2009	\$ 1,383,200	\$ 2,007,388
2010	850,766	1,728,948
2011	589,379	1,278,414
2012	527,610	250,289
<b>Total</b>	<b><u>\$ 3,350,955</u></b>	<b>5,265,039</b>

Amounts Representing Imputed Interest (Interest  
Rates Range from 4.00% to 5.17%)

315,722

Present Value of Capital Lease Obligations (Including  
\$1,831,057 Classified as Amounts Due Within One Year)

**\$ 4,949,317**

The Hospital leases space to physicians through a combination of cancelable and noncancelable lease agreements. Rental income earned under these agreements was \$2,039,433 and \$1,942,198 for the years ended December 31, 2008 and 2007, respectively.

The future minimum lease payments to be received from noncancelable lease agreements at December 31, 2008, are as follows:

	Operating Leases
2009	\$ 1,784,659
2010	1,289,930
2011	643,272
2012	325,280
2013	153,616
<b>Total</b>	<b><u>\$ 4,196,757</u></b>

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

**Note 7. Long-Term Debt**

The details and balances of long-term debt at December 31, 2008 and 2007, are presented below:

	2008	2007
General Obligation Bonds, Series 2004A, Described in Detail Below (\$330,000 Due in 2009)	\$ 7,080,000	\$ 7,395,000
General Obligation Bonds, Series 2004B, Described in Detail Below (\$490,000 Due in 2009)	11,455,000	11,920,000
General Obligation Bonds, Series 2004C, Described in Detail Below (\$40,000 Due in 2009)	1,070,000	1,110,000
Hospital Indebtedness, Series 2005, Described in Detail Below (\$935,000 Due in 2009)	7,505,000	8,400,000
Community Disaster Loan, Including Accrued Interest Described in Detail Below (Due in 2011)	25,261,244	24,586,380
Notes Payable to Physicians, 7% (\$170,000 Due in 2009)	170,000	340,000
	52,541,244	53,751,380
Less Amounts Due Within One Year According to Terms of Debt Instruments	1,965,000	1,885,000
<b>Total</b>	<b>\$ 50,576,244</b>	<b>\$ 51,866,380</b>

The following table for the year ended December 31, 2008 and 2007, summarizes the changes in long-term debt:

	2008	2007
Balance of Long-Term Debt at December 31, 2007	\$ 53,751,380	\$ 54,881,513
Less Repayment of Bonds and Notes Payable	(1,885,000)	(1,805,000)
Add Issuance of Hospital Indebtedness Obligations	-	-
Add Long-Term Accrued Interest on CDL Loan	674,864	674,867
<b>Balance of Long-Term Debt at December 31, 2008</b>	<b>\$ 52,541,244</b>	<b>\$ 53,751,380</b>

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 7. Long-Term Debt (Continued)**

**Refinancing**

In October 2003, the voters of St. Tammany Parish approved a referendum authorizing the Hospital to issue up to \$22.45 million of general obligation bonds in 2004, which would be secured by the pledge of dedicated property tax millages set annually at rates sufficient to fund principal maturities and interest on the related bonds. The Hospital issued three series of general obligation bonds in 2004 to refinance the balances of 1994, 1996, and 1999 revenue bonds.

**General Obligation Bonds**

On March 31, 2004, the Hospital issued \$8 million in General Obligation Bonds with interest rates ranging from 2% to 5% to advance refund \$9.24 million of outstanding Hospital Revenue Bonds, Series 1994. The net proceeds of \$7.9 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1.99 million of existing sinking fund and debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the portion of the 1994 bonds until the bonds were advance refunded on October 4, 2004.

On July 29, 2004, the Hospital issued \$13.115 million in General Obligation Bonds with interest rates ranging from 4.125% to 6% to advance refund the remaining \$14.16 million in outstanding 1994 Revenue Bonds and all of the \$691,885 outstanding Hospital Revenue Bonds, Series 1996. The net proceeds of \$13 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$2.5 million of existing sinking fund and debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 bonds until the amounts were advance funded on October 4, 2004. The entire amount of the Series 1996 Bonds were refunded on July 29, 2004.

On July 29, 2004, the Hospital issued \$1.205 million in General Obligation Bonds with interest rates ranging from 5.8% to 8% to advance refund \$2.2 million of outstanding 1999 Revenue Bonds. The net proceeds of \$1.2 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1 million of existing debt service reserve monies were deposited in an irrevocable trust with an escrow agent to provide for the advance refunding on July 29, 2004.

Interest on the general obligation bonds is payable semi-annually on March 1 and September 1 each year. The bonds mature in annual installments on March 1 each year until 2024. The bonds can be called for early redemption after March 1, 2014.

**St. Tammany Parish Hospital Service District No. 2**  
**(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 7. Long-Term Debt (Continued)**

**Hospital Indebtedness Obligations**

On July 27, 2005, the Hospital issued \$10 million of Hospital Indebtedness Obligations to finance the cost of constructing, acquiring, and/or improving hospital facilities and equipment for the Hospital. The Obligations bear rates ranging from 3.45% to 4.1% and are payable in annual installments through July 1, 2015. The Obligations are not callable for redemption prior to their stated maturity dates. The obligations are secured by a pledge of the net income, revenues and receipts of the Hospital.

**Community Disaster Loans**

During 2006, the Hospital received a total of \$23,503,926 in the form of promissory notes issued under the Community Disaster Loan Act of 2005. The proceeds of which were used to fund essential operations, primarily payroll and labor related costs post-Katrina. The loans bear interest rates ranging from 2.8% to 3.12%, and both the principal and interest amounts are due in five years from the date of issuance at varying dates in fiscal 2011. The notes are payable from and secured by a pledge of the Hospital's revenues for each fiscal year while any of the notes are outstanding, after provision has been made for the payments required in connection with any outstanding bond indebtedness of the Hospital. Under certain circumstances, as stipulated in the Stafford Disaster Relief and Emergency Act, these notes and related accrued interest may be forgiven. Interest expense related to these loans was \$674,864 and \$674,867 for the years ended December 31, 2008 and 2007, respectively. There were no repayments of principal or interest during 2008 or 2007.

**Combined Debt Service Commitments**

Principal and interest payments due on general obligation bonds and notes payable are as follows:

<b>Years Ended December 31</b>	<b>Principal</b>	<b>Interest</b>
2009	\$ 1,965,000	\$ 1,164,190
2010	1,890,000	1,086,378
2011	27,231,244	2,621,668
2012	2,070,000	920,243
2013	2,155,000	834,534
2014-2018	8,425,000	2,908,768
2019-2023	7,695,000	1,236,403
2024	1,110,000	28,523
<b>Total</b>	<b>\$ 52,541,244</b>	<b>\$ 10,800,707</b>

**St. Tammany Parish Hospital Service District No. 2**  
**(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 8. Employee Benefits**

The Hospital and its member organizations maintained a qualified noncontributory defined contribution pension plan which provided pension benefits for eligible employees through March of 2002. Beginning in April of 2002, the Hospital began a combination deferred compensation and contributory employee savings plan for full-time employees. Each employee's interest in the existing plan is fully vested and was transferred over to the new plan.

The new pension plan provides a discretionary employer match of participant elective deferrals up to 4% beginning January 1, 2006 rather than contributions based on salaries. Plan participants over age 50 prior to September 26, 2005 continue to receive the employer match up to 8% of their elective deferral. Employees are eligible to participate at their date of hire. Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Hospital's contribution is based on years of service. The following vesting schedule is in effect:

<b>Years of Vesting Service</b>	<b>Percent Vested</b>
1	20 %
2	40
3	60
4	80
5	100

The total payroll for the years ended December 31, 2008 and 2007, was \$51,190,560 and \$51,874,065, respectively. During the years ended December 31, 2008 and 2007, the Hospital and member organizations made required contributions to the Plan of \$1,372,912 and \$1,263,034, respectively.

**Note 9. Risk Management**

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. The Hospital participates in the Louisiana Hospital Association Trust Fund (LHA Trust Fund) and the Louisiana Patients' Compensation Fund (Compensation Fund) for insurance coverage on medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The LHA Trust Fund provides malpractice coverage for claims up to \$100,000 and the Compensation Fund provides an additional \$400,000 of coverage. These funds provide the Hospital with malpractice coverage on an occurrence basis up to the \$500,000 statutory limitation.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 9. Risk Management (Continued)**

Hospital management has no reason to believe that the Hospital will be prevented from continuing its participation in the Fund. LHA Trust Fund insures general liability up to \$1,000,000 per claim. The LHA Trust Fund insures excess general liability claims in excess of \$1,000,000 but limited to \$9,500,000 per claim. Effective November 1, 2007 the Hospital's insurance coverage under the LHA Trust Fund was subject to a deductible of \$100,000 on a claims made basis. Accordingly, as of December 31, 2008, the Hospital has recorded malpractice accruals, totaling \$355,000 as an estimated provision for both asserted claims and for claims incurred but not reported.

This provision is included as a component of accrued interest and other expenses on its consolidated balance sheet. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 2008, exceeding these coverage limits.

The Hospital is self-insured for workers' compensation up to \$300,000 per claim, and employee health up to \$140,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The Hospital carries commercial insurance which provides coverage for workers' compensation and employee health claims in excess of the self-insured limits.

Changes in the Hospital's aggregate claims liability for professional, general liability, workers' compensation and employee health, which are included in accrued interest and other expenses on the accompanying balance sheets, for the years ended December 31, 2008 and 2007, were as follows:

<b>Years Ended December 31</b>	<b>Beginning of Year Liability</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balance at Year End</b>
2008	\$ 722,442	\$ 7,804,789	\$ 7,062,157	\$ 1,465,074
2007	806,577	5,764,325	5,848,460	722,442

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

**Note 10. Concentrations of Credit Risk**

The Hospital grants credit without collateral to its patients, most of whom are local residents and are often insured under third party payor agreements. The mix of receivables from patients and third party payors net of contractual allowances at December 31, 2008 and 2007, was as follows:

	2008	2007
Medicare	9 %	13 %
Medicaid	5	2
Managed Care and Other Payors	34	48
Patients	52	37
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

**Note 11. Changes in Capital Assets**

Capital asset activity for the fiscal year ended December 31, 2008, was as follows:

	Balance December 31, 2007	Additions	Deletions	Balance December 31, 2008
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 4,787,713	\$ 333,177	\$ -	\$ 5,120,890
Construction in Process	-	989,983	-	989,983
<b>Total Capital Assets Not Being Depreciated</b>	<b>4,787,713</b>	<b>1,323,160</b>	<b>-</b>	<b>6,110,873</b>
<b>Capital Assets Being Depreciated</b>				
Land Improvements	1,076,492	-	-	1,076,492
Buildings	68,698,770	1,486,241	-	70,185,011
Equipment	52,789,149	5,116,704	(283,565)	57,622,288
<b>Total Capital Assets Being Depreciated</b>	<b>122,564,411</b>	<b>6,602,945</b>	<b>(283,565)</b>	<b>128,883,791</b>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements	941,222	27,753	-	968,975
Buildings	41,248,645	2,647,303	-	43,895,948
Equipment	32,982,765	5,811,343	(267,979)	38,526,129
<b>Total Accumulated Depreciation</b>	<b>75,172,632</b>	<b>8,486,399</b>	<b>(267,979)</b>	<b>83,391,052</b>
<b>Capital Assets Being Depreciated, Net</b>	<b>47,391,779</b>	<b>(1,883,454)</b>	<b>(15,586)</b>	<b>45,492,739</b>
<b>Total</b>	<b>\$ 52,179,492</b>	<b>\$ (560,294)</b>	<b>\$ (15,586)</b>	<b>\$ 51,603,612</b>

Capital asset activity for the fiscal year ended December 31, 2007, was as shown on the following page:

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

**Note 11. Changes in Capital Assets (Continued)**

	December 31, 2006	Additions	Deletions	December 31, 2007
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 4,787,713	\$ -	\$ -	\$ 4,787,713
Construction in Process	-	-	-	-
<b>Total Capital Assets Not Being Depreciated</b>	<b>4,787,713</b>	<b>-</b>	<b>-</b>	<b>4,787,713</b>
<b>Capital Assets Being Depreciated</b>				
Land Improvements	1,076,492			1,076,492
Buildings	68,135,455	563,315		68,698,770
Equipment	47,713,551	8,018,018	(2,942,420)	52,789,149
<b>Total Capital Assets Being Depreciated</b>	<b>116,925,498</b>	<b>8,581,333</b>	<b>(2,942,420)</b>	<b>122,564,411</b>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements	913,468	27,754	-	941,222
Buildings	38,480,265	2,768,380	-	41,248,645
Equipment	30,867,005	4,997,803	(2,882,043)	32,982,765
<b>Total Accumulated Depreciation</b>	<b>70,260,738</b>	<b>7,793,937</b>	<b>(2,882,043)</b>	<b>75,172,632</b>
<b>Capital Assets Being Depreciated, Net</b>	<b>46,664,760</b>	<b>787,396</b>	<b>(60,377)</b>	<b>47,391,779</b>
<b>Total</b>	<b>\$ 51,452,473</b>	<b>\$ 787,396</b>	<b>\$ (60,377)</b>	<b>\$ 52,179,492</b>

**Note 12. Hurricane Katrina Recovery**

As does much of the Greater New Orleans metropolitan area, the Hospital continues to recover from the effects of Hurricane Katrina. The Hospital received additional funding from certain Federal and state programs to compensate the Hospital for the significant level of uncompensated care post-Katrina (see Note 3).

During 2007, the Hospital reported \$1,434,604, of non-operating revenue related to Katrina claims from its insurer for business interruption coverage. This payment represented the final settlement of these claims. At December 31, 2008, the Hospital had a payable recorded to FEMA of \$250,000 for expenses that were also reimbursed by its insurer. The payable is included in accrued expenses.

**St. Tammany Parish Hospital Service District No. 2  
(d/b/a Slidell Memorial Hospital)**

**Notes to Consolidated Financial Statements**

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**Note 13. Construction of Regional Cancer Center in 2009**

In November 2007, voters in the district served by the Hospital approved a referendum to allow the Hospital to use excess funds from the 2003 bond millage to build a state-of-the-art regional Cancer Center. More than 79 percent of voters voted in favor of the proposal to invest \$17.5 million in construction of the Cancer Center. Construction of the Center is to be financed through a bond issue funded by the existing millage. The current millage rate paid by property owners in Wards 6, 7, 8, and 9 of St. Tammany Parish is not expected to increase as a result of the referendum passing.

The Center will provide comprehensive cancer services in a centralized location and allow for improved collaboration and a multi-disciplinary approach to cancer treatment. Current plans include construction of the cancer center to be complete by the end of 2010.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
St. Tammany Parish Hospital Service District No. 2  
Slidell, Louisiana

We have audited the consolidated basic financial statements of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Organization) as of and for the year ended December 31, 2008, and have issued our report thereon dated April 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Slidell Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the Hospital, the Louisiana Legislative Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in black ink, appearing to read "Anthony J. Neal".

A Professional Accounting Corporation

April 15, 2009